

Because of our approach, we have grown rapidly. Millions of sellers accept payments with Square. They span all types of businesses: from cabs to coffee shops, lawyers to landscapers, retail stores to restaurants. Although substantially all of our revenue is currently generated in the United States, we also serve sellers throughout Canada and Japan. As this international base of sellers grows, so too should our Gross Payment Volume (GPV) and revenue in these regions. We serve sellers of all sizes, ranging from a single vendor at a farmers' market to multinational businesses. Our products and services are built to scale, so sellers can stay with us over the life of their businesses. In the 12 months ended September 30, 2015, sellers using Square processed \$32.4 billion of GPV, which was generated by 638 million card payments from approximately 180 million payment cards. GPV measures the total dollar amount of card payment transactions we process for our sellers (net of refunds), excluding card payments processed for Starbucks and our Square Cash peer-to-peer service. Since we generate transaction revenue as a percentage of payment volume, we believe GPV is a key indicator of our ability to generate revenue. In the 12 months ended September 30, 2015, over two million sellers accepted five or more payments using Square, accounting for approximately 97% of our GPV.

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The foundation of our business model is the millions of sellers processing payments with Square. We estimate that, to date, nearly half of our sellers have found us and signed up, rather than us having found them, adding efficiency to our sales and marketing efforts. We measure the effectiveness of our spending by evaluating the "payback period," which we view as the number of quarters it takes for a quarterly cohort of sellers' cumulative transaction revenue net of transaction costs to surpass our sales and marketing spending in the quarter in which we acquired that cohort. We define a quarterly cohort of sellers as the group of sellers that are approved to accept card payments with Square in a given quarter. On average, our payback period has been four to five quarters.

Revenue from our sellers has grown consistently over time, resulting in strong dollar-based retention rates. Transaction revenue net of transaction costs for each of our 18 quarterly seller cohorts (dating back to the second quarter of 2010) has grown year over year in every quarter since the first quarter of 2012. Over the past four quarters, retention of transaction revenue net of transaction costs for our cohorts has, on average, exceeded 110% year over year.

The addition of new products and services is also a key part of our strategy. Our scale, growth, and unique insights enable us to serve sellers of all sizes with additional financial services and marketing services, further strengthening our business. For example, sellers who grow sales as a result of deploying funds from Square Capital into their business will ultimately process increased payment volume with us.

We earn nearly all of our revenue from payments and POS services. For the nine months ended September 30, 2015, transaction revenue and Starbucks transaction revenue together represented 95% of total net revenue. For the nine months ended September 30, 2015, our total net revenue grew to \$892.8 million, up 49% from the nine months ended September 30, 2014. In 2014, our total net revenue grew to \$850.2 million, up 54% from the prior year. For the nine months ended September 30, 2015, our Adjusted Revenue grew to \$317.6 million, up 63% from the nine months ended September 30, 2014. In 2014, our Adjusted Revenue grew to \$276.3 million, up 73% from the prior year. We intend to continue to make investments that will serve sellers and buyers over the long term even if a return on these investments is not realized in the short term. For the nine months ended September 30, 2015 and September 30, 2014, we generated a net loss of \$131.5 million and \$117.0 million, respectively. In 2014 and 2013, we generated a net loss of \$154.1 million and \$104.5 million, respectively.

Factors Affecting Our Operating Performance

Adoption of our payments and POS services. Our payments services are the foundation of our relationship with our sellers. We generate revenue with every card payment that our sellers accept. We will continue to drive adoption of our payments services by scaling our solutions to meet the needs of sellers of all types and sizes. We believe we can do this by further developing our products and services, using custom pricing to attract larger sellers, and enhancing relationships with larger sellers through our direct sales and account management teams.

We seek to continue to drive adoption of our payments and POS services, as they represent one important way sellers can gain familiarity with our full range of products, features, and services. The insights generated by our payments services enable many new products and services, such as analytics that show our sellers how their businesses are performing, helping them increase sales and thereby generating incremental revenue for us. As a result, the level of ongoing seller adoption of our payments and POS services will affect our growth.